Language & Internationalization Behavior of SMEs

Master Thesis

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Acknowledgements & Preface

This thesis is the final result of an intensive and interesting period of studies at Rotterdam School of Management. Strategic Management has caught my interest during the very first stages of my study. I am very happy to have been able to combine my personal and professional interest in languages and internationalization, into finalizing this master thesis.

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I would also like to thank my mother for her belief and support in me and for providing me a 'quiet' place to study from time to time. Finally I would like to express my memories to my father, who passed away a few years ago. I miss you.

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Executive summary

This research provides insight in the influence of language difference on the internationalization process of small and medium-sized enterprises (further referred to as SMEs). This research combines an extensive literature review with a practical case study on SMEs. Internationalization is an important dimension of the strategy process of firms and involves several decisions, such as where to and how to expand. When expanding abroad, firms encounter language differences between home and host countries. These language differences may cause influence on the internationalization process.

This research is based on a qualitative inquiry. Nine firms have participated in this study and interviews were conducted with either owners or directors, closely involved or responsible for internationalization choices. All firms are based in The Netherlands and internationally active for a minimum of 15 years.

The drivers for internationalization of SMEs mainly lie in the desire to increase sales, combined with a strong demand for Dutch products and expertise. SMEs mostly use an incremental process of internationalization, entering markets through export or working with agents. Further findings reveal that language difference between home and host countries still plays a role within the internationalization process of SMEs. This role however is declining due to increasing use of information technology and the use of English as lingua franca in international business. Especially the French language apparently still influences market selection or entry decisions of SMEs. In order to support the internationalization process, most firms invest in language courses and use translators. They do however have different experiences using translators. Trust and the use of technical terms are elements that arise when using a translator to bridge language difference. Firms also experience power difference due to language difference.

Until recent, the influence of language difference on internationalization has mainly been studied at the level of multinational enterprises (further referred to as MNEs). Very few studies have focused on the influence of language difference, related to the internationalization process of SMEs. This research therefore contributes to literature.
Due to the character and the amount of firms that have been subject of this research, generalization of results is limited. Future research for example could focus on the extent of unused market potential due to perceived language difference.

1.Introduction

The Austrian philosopher Ludwig Wittgenstein once said:

“*Die Grenzen meiner Sprache bedeuten die Grenze meiner Welt”*

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“The limits of my language mean the border of my world”

This research is about language and its role in the internationalization process of firms.
Firms internationalize for different reasons and when they do so this encompasses three challenging decisions. Firms need to decide to what location or country they shall expand their activities. Timing is involved, as to when the firm will start its internationalization. The third decision encompasses the entry mode that shall be applied (Williams & Grégoire, 2015). Internationalization of firms is caused by various drivers, from the desire to increase sales (Johanson & Vahlne,1977) to seeking resources that are not available at home, such as natural or human resources (Dunning, 2000). When firms internationalize they have to manage forms of ‘distance’, such as geographic, psychic or cultural distance between home and host market. According to Drogendijk and Slangen (2006) cultural distance is the difference between shared norms and values between countries. Cultural and psychic distance are closely associated (Dow & Karunaratna, 2006). Bridging these forms of distance is more or less inherent to internationalization, Williams and Grégoire (2015) even consider international management, ‘management of distance’.

When firms actually expand their business abroad, they will also experience a language barrier when languages of home and host countries are different (Harzing & Pudelko, 2013). In practically all distance concepts, described in international business literature, language is referred to as an (underlying) dimension that plays a significant role. Pudelko,Tenzer and Harzing (2014) even add language distance to a list of distance concepts. According to Marschan, Welch & Welch (1997) language is important in international business and it affects the way firms function in the international arena.

Maclean (2006) states: *“Companies deal with language issues every day, the cope, the world continues to turn. How they do so, however, remains largely absent from literature”.*

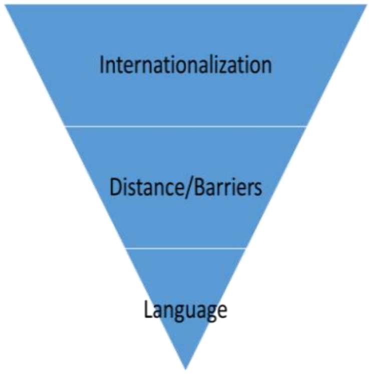
This research therefore tries to reveal the influence of language difference during the internationalization process of firms.

When zooming in on the internationalization process itself, Musso and Francioni (2014), emphasize two decisions that are critical for a firm's success; international market selection and entry mode selection. Many scholars about distance models in international business show the influence of distance on these two important internationalization decisions. According to Dow (2000) a lower psychic distance means that a country is more likely to be selected. Brewer (2007) even states that managers tend to avoid markets that are difficult to know, especially early In the internationalization process.

Literature provides many studies that focus on internationalization and distance concepts. These studies focus mainly on MNEs (Tenzer, Terjesen & Harzing, 2017). According to Musso and Francioni (2014) SMEs represent the majority of firms in many countries. Compared with MNEs, SMEs act differently with their environment, due to factors such as management style and resource availability. Having limited resources compared to MNEs, restricts SMEs from doing research activities for example (Brouthers & Nakos, 2004).

Adding to this that language is referred to as 'the forgotten factor' or 'management orphan' (Harzing, Koster & Magner, 2011; López-Duarte & Vidal-Suárez, 2010), while Maclean (2006) states that language has evolved from a 'minor issue', to strategic status within transnational corporations, it seems relevant to add in-depth knowledge to this field. This contributes to gaps in literature and leads to information that may contribute for SMEs when making strategic choices about internationalization.

Figure 1: Extracting language as research topic



Knowing language is factor that plays a role in various distance concepts, this research aims to provide a better understanding about how language difference influence the internationalization process of SMEs.

Figure 1 shows the extraction of language from internationalization and distance theories, leading to the following research question:

How does language difference between home and host country, influence the internationalization process of SMEs?

Focus of this study lies on Dutch SMEs, based within the Dutch horticultural industry. After an extended literature study about internationalization of firms and language in international business, a research gap is described. Methodology is further explained, followed by results revealing data from fieldwork. Finally conclusions and limitations regarding this thesis are presented.

2.Theoretical background

This chapter contains the literature review related to internationalization of firms and the impact of language difference in this process. The following subjects are described;
Firstly literature regarding internationalization strategies of firms and more specifically by SMEs, will be discussed. There is a special focus on market selection and entry mode strategies. Secondly, the role of language in international business will be discussed, based on explanations through distance concepts known in international business literature. Finally, language impact on the internationalization of firms will be discussed, followed by the research gap and research objectives.

2.1 Internationalization & SMEs

This section outlines theories about the internationalization process of firms and provides a brief description of SMEs.

2.1.1 Internationalization theories

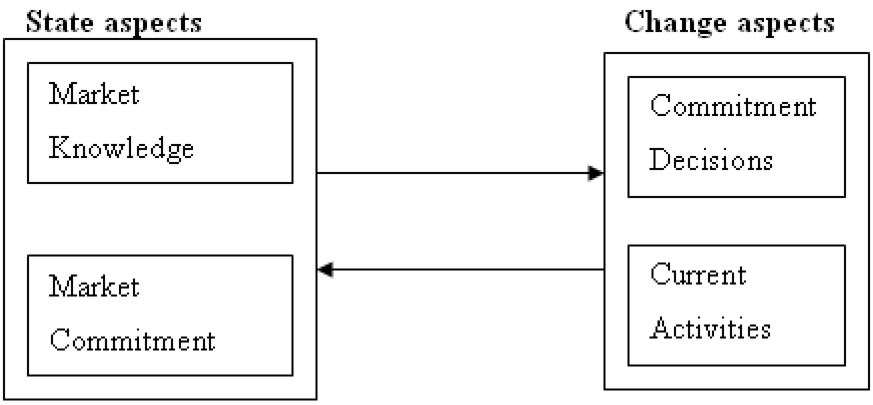
According to Mintzberg (1987), strategy making is closely involved with changing perspectives and/or positions. Melin (1992) describes internationalization as the process of increasing involvement in international operations across borders, defining it as an important dimension of the strategy process of firms. The internationalization process of firms has widely been researched in the past years, focusing mainly on MNEs and less on SMEs (Musso & Francioni, 2014; Kontinen & Ojala, 2010). According to Williams and Grégoire (2015), firms internationalize for different reasons and three related decisions are involved in this process; where to (location or country), when (timing) and how (entry mode). According to the more traditional view within international business literature, internationalization is primarily motivated by the desire to increase sales (Johanson & Vahlne,1977). Further motivators for internationalization are market seeking (for example new customers), resource seeking (for example human or natural resources), efficiency seeking (for example production efficiency) or strategic asset seeking (enhancing operations in other markets) (Dunning, 2000; Franco, Rentocchini, & Vittucci Marzetti, 2008).

Various theoretical frameworks are widely used to explain the internationalization process of firms. Examples are the eclectic paradigm (OLI framework), the transaction cost economics (TCE) model, the Uppsala model (Johanson & Vahlne, 1977, 2009) and the born global approach (Oviatt & McDougall, 1994, 1997, 2005). Both the Uppsala model and the born global approach are used mostly to explain the internationalization process of SMEs. The majority of these frameworks, as well as others, are mostly applied for explaining location choices (Schotter & Beamish, 2014; Brouthers & Nakos, 2004).

The OLI eclectic paradigm originally refers to value added (production) activities by MNEs, providing advantages at organization, location and internationalization level. It offers a framework for analyzing determinants playing a role in the decision process of international production (Dunning, 2000). Opposite this more resource based theory, Williamson (1979) developed a version of transaction cost economics, which is widely used in international business literature, explaining strategic choices of firms in fields such as distribution, integration and internationalization (Goshal & Moran, 1996). The theory of transaction costs examines the efficiency of alternative institutions with respect to the minimization of transaction costs when conducting a transaction (Hansen & Schütter, 2009).

In contrast to neoclassical economics, TCE is concerned with the allocation of economic activity across alternative modes of organization (markets, firms, bureaus, etc.),employs discrete structural analysis, and describes the firm as a governance structure (which is an organizational construction).

Figure 2: The Uppsala Internationalization model



Source, Johanson & Vahlne, 1977

According to the Uppsala model (see Figure 2), internationalization is a process following several steps, entering foreign markets incrementally, while benefiting from the learning effect (Johanson & Vahlne, 2009; Dominguez & Mayrhofer, 2017). SMEs tend to favor nearby countries when they start their foreign operations and only thereafter expand their operations to more distant markets (Kontinen & Ojala, 2010). Behavioral perspective plays an important role in the Uppsala model, whereas firms make decisions to enter a (nearby) market, due to levels of uncertainty and experience, specifying market knowledge as a critical success factor (Williams & Grégoire, 2015). Their specific character, such as limited financial resources or their sensitivity to external resources, also causes SMEs to favor the Uppsala model (Laufs & Schwens, 2014). Both market knowledge and market commitment affect commitment decisions of firms. The amount of foreign market knowledge and operations is influenced by commitments of resources in foreign markets, and vice versa. Since its introduction in 1997, the Uppsala model has been updated several times and acknowledges mutual interactions and influence of state and change variables. The latest version includes more process based explanations, such as capability-creating processes (Vahlne & Johanson, 2017).

According to the more recent 'born global' perspective, internationalization is no longer considered as an incremental process. Companies can choose to internationalize very early, and develop rapidly in different foreign markets, including distant countries. Companies that internationalize according to the 'born global' perspective are often part of high-tech industries (Dominguez & Mayrhofer, 2017).

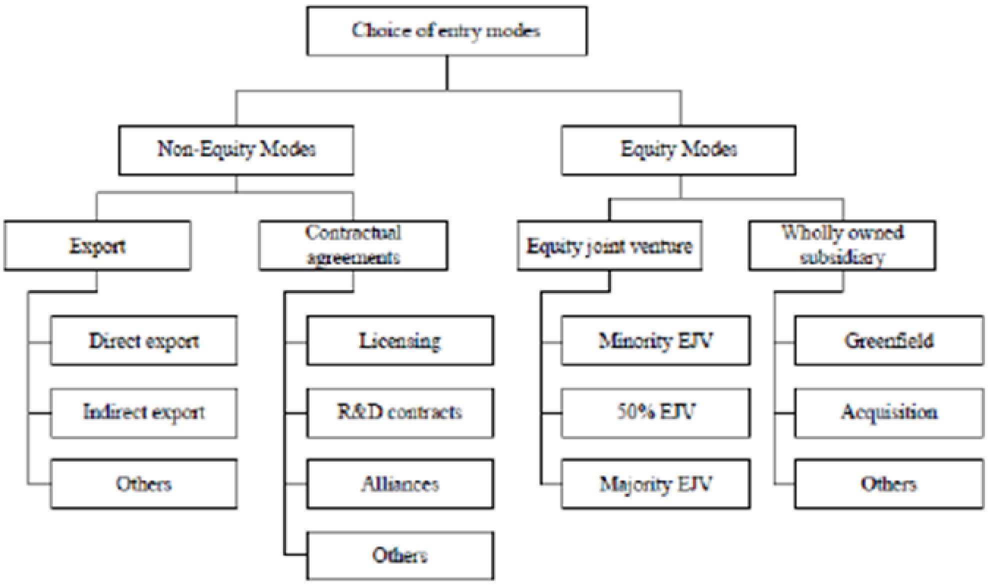
The decreasing number of trade barriers, homogenization of markets, globalization and development of communication technology stimulates the 'born global' perspective (Mcdougall & Oviatt, 2000; Kontinen & Ojala, 2010). SMEs active in the horticultural industry may be considered 'low-tech' and are assumed to follow the traditional models such as Uppsala. Malhotra and Hinings (2010) take it further and consider the debate whether an internationalization process is incremental or not, as unfruitful. They argue that different types of organizations follow different processes of internationalization.

2.1.2 Entry mode strategies & Distance

Musso and Francioni (2014) consider market entry and market selection decisions both as important decisions within the internationalization process of SMEs. Koch (2001) even refers to these decisions as aspects of the same decision making process.

Choosing a suitable market entry mode is considered an important strategic choice of internationalizing companies (Laufs & Schwens, 2014). According to Musso and Francioni (2014) market entry decisions can be critical for a firms' success. Entry modes are typically classified according to the share of equity taken by the foreign investor (Brouthers & Hennart, 2007; Schwens, Eiche & Kabst, 2011). A classification is made by distinguishing equity or non-equity mode, as shown in figure 3. Examples of equity modes are either joint ventures or wholly owned subsidiaries. Examples of non-equity entries are either export or contractual agreements (Pan & Tse, 2000).

Figure 3: Classification of Entry Modes



Source: Pan & Tse, 2000

Within each type of entry mode, firms have various options to penetrate foreign markets with variable levels of control and resource commitment. In terms of equity investment one can mention that risks are lower for non-equity entry modes (Nakos & Brouthers, 2002).

SMEs however have different characters compared to MNEs, such as limited financial and personal resources (Laufs & Schwens, 2014). Due to this, SMEs tend to choose less for equity modes requiring higher risk levels such as acquisitions (Nakos & Brouthers, 2002; Laufs & Schwens, 2014).

Both equity joint venture and wholly owned subsidiary are defined as equity based entry modes considered to imply higher forms of risks for the internationalizing firm (Pinho, 2007). Participating in a joint venture however can also require a relatively low equity investment and thus allow a firm to benefit a partners' familiarity with culture and knowledge of the host country (López-Duarte & Vidal-Suárez, 2010) and thus leveraging its resources.
SMEs however mostly expand to foreign markets as exporters due to their organizational characteristics and thus avoiding risks (Martineau & Pastoriza, 2016; Pinho, 2007).
Various entry mode studies in international business literature have focused on entry modes and the influence of cultural distance. Brouthers and Brouthers (2001) for example found that firms entering culturally distant markets low in investment risk, tended to prefer cooperative modes of entry. Firms entering culturally distant markets high in investment risk preferred wholly owned modes of entry. Dow and Larimo (2009) studied entry mode decisions and found that aspects such as language difference, leads to uncertainty , which in turn leads to firms adopting an entry mode strategy that reduces the cost and risk of the foreign investment. A joint venture structure for example enables a firm to delegate management functions to the local partner. This facilitates local communication with stakeholders.

SMEs generally tend to internationalize through traditional and incremental paths according to the Uppsala model, due to lack of resources and market knowledge (Dominguez & Mayrhofer, 2017). However this lack of market knowledge mainly results from psychic distance. According to Dow (2000) psychic distance can be referred to as "*the sum of factors preventing or disturbing the flows of information between firms and market*". This includes differences in language, education, culture and managerial practice (Dominguez & Mayrhofer, 2017). Dow (2000) studied the relation between of psychological distance and export market selection of Australian SMEs, concluding it being a highly significant predictor of early export market selection. Whitelock and Jobber (2004) concluded similar after internationalization of British industrial firms.

Nordman and Tolstoy (2014) reveal that internationalization decisions of SMEs can also be based on relationship motivations instead of market oriented motivations. Johanson & Vahlne (2009) also refer to internationalization as being less a market/country matter but more a relationship matter. Since (the transfer of) knowledge is an important factor in the internationalization process, Nordman and Tolstoy (2014), emphasize the importance of psychological distance, influencing knowledge transfer, due to factors such as culture and language.

2.1.3 Small and medium-sized enterprises

International business literature makes a distinction between MNEs and SMEs. According to Brouthers and Nakos (2004) SMEs are not smaller versions of larger companies, but they tend to act differently with their environment. Its most common to distinguish SMEs from MNEs by their amount of employees. The European Commission (EC) and the Organization for Economic Co-operation and Development (OECD) both use the classification by number of employees. SMEs are officially defined by the European Union as having fewer than 250 employees. In addition they can have an annual turnover of up to 50 million euro. SMEs represent 99 percent of the businesses in the European Union (Pinho, 2007; European Commission, 2018).

They play an important economic role in their countries (Musso & Francioni, 2014) and are very beneficial to local economies, creating jobs, opening new market sectors and developing new products (Kontinen & Ojala, 2010).

Various characteristics influence the internationalization process of SMEs, when compared to MNEs (Laufs & Schwens, 2014). Examples are limited financial and human resources, market power and limited access to market research (Musteen, Francis & Datta, 2010). Another characteristic of SMEs is their sensitivity to external challenges, caused by developments at technological or political level. This makes it more difficult to find an entry mode dealing with risks (Laufs & Schwens, 2014). Finally the ownership structure of SMEs, compared with MNEs, influences the internationalization process. Many SMEs are family owned and strategic orientation depends largely on the owners’ or founders’ personal objectives (Laufs & Schwens, 2014). Family owned firms have a more long-term orientation, affecting strategic decisions. They are less willing to share control in modes such as equity joint ventures (Laufs & Schwens, 2014).

2.2 Language and internationalization

This section will focus on language and its role in the internationalization process of firms.

Language is defined by Welch & Welch (2018) as an umbrella term; "the means of human communication", "essential in communication" and "refers to the everyday written and spoken communication". Language can be considered a mechanism of communication among others such as acoustic, tactile, graphic and symbolic mechanisms (Crick, 1999). Language studies in international business literature mostly focus on verbal or written communication. Besides that, non-verbal communication can influence a cross-cultural communication process, such as being direct, using first names or wearing too casual clothing.

Language is considered important in international business as it affects the way firms function in the international arena (Marschan et al., 1997). Harzing and Pudelko (2013) go as far to mention that each company will experience a language barrier when expanding into countries that do not share its home country language. However language has long been a neglected factor in international business literature, due to the dominance of English language in international business and the difficulty to disentangle language effects from broader cultural influences (López-Duarte & Vidal-Suárez, 2010). Besides that, language studies in international business have mostly been conducted in MNEs until recently (Tenzer et al., 2017). These studies focused mainly on topics such as language competencies, practices and policies within MNEs, including headquarter- subsidiaries relations (Tenzer et al., 2017). The role of language in internationalization of SMEs received less attention in international business studies (Tenzer et al., 2017).

Pudelko and Tenzer (2014) raise the question why it took relatively long to 'discover' language as relevant for international business. Firstly, language was frequently defined as 'merely' being part of culture. Secondly the assumed solution to language difference was the adoption of English as lingua franca. This refers to a language being adopted as common between speakers that do not share a native language. An example of a former lingua franca before English was the use of French in diplomacy. Nowadays literature refers to the dominance of English as a lingua franca in international business (Welch & Welch, 2001; Luo & Shenkar, 2006; Tenzer et al., 2017). A study by Sauter (2009) even refers to an estimation that English is the only significant language in European trade relations.

2.2.2. Language in distance concepts

Distance appears in many sociocultural studies in relation to international business, and internationalization, varying from psychic distance to the CAGE framework (Schotter & Beamish, 2013). In practically all distance concepts used in international business literature language is referred to as an (underlying) dimension that plays a significant role within these concepts. This section outlines the most important distance concepts that refer to language.

Figure 4: CAGE Distance framework

Table 6 The CAGE Framework: Industry-Level Analysis[a]

	Cultural Sensitivity	*Administrative Sensitivity*	*Geographic Sensitivity*[b]	*Economic Sensitivity*
Industry Characteristics	• High linguistic content (TV programming) • Local tradition/identity (ego expressive prod.) • Significant diff. in preferences (hor. diff.) idiodyncr tastes (fish sausage, boxer shorts) design difference (autos) diff. in standards (electrical appliances) diff. in sizes/packages (processed foods) diff. in target segments (boom boxes, US vs Japan) • Entrenched tastes • Home bias ('local' preferences) • +Strong country of origin effects (vertical differentiation)	• High government involvement procurement/funding (mass transportation products) regulation (healthcare) state ownership (telecoms) • Strategic industry status size (autos) votes/organization (agriculture, textiles) national security concerns (telecommunications) anointed patrimony effects (natural resources) • National patrimony effects (natural resources) • Mass consumption/staple products (food, fuel/energy) • Asset specificity and the scope for holdup (infrastructure) • Specific profit restraint on foreign competitors/opportunities	• Low value to weight/bulk (cement) • Hazards/diff. in transport • Perishability (fruit) • Importance of connectivity (fin. serv.) • Intence local supervision requirements (restaurants) • Other local perform. req. for value activities (many services)	• High intensity of labor, other factors prone to abs. cost or efficiency diff. (garments) • Potential intl. scale/scope/experience effects • Different cycles (cement) • Diff. in willingness to pay/profitability • Income related difference in demand (automobiles) • Need for variety/agility/responsiveness (home appliances) • Difference in suppliers/channels/business systems (insurance)

[a]*Source:* Ghemawat (2001).
[b]Many of these conditions tend to favor FDI relative to trade.

Source: Ghemawat, 2001

CAGE

Ghemawat's (2001) CAGE distance framework, shown in figure 4, assesses the various components of distance and categorizes these distances in the following four dimensions; Cultural, Administrative, Geographical and Economic.

These dimensions influence different businesses in various ways (Ghemawat, 2001). Language difference is an attribute mentioned within the cultural distance dimension. Studying industry sensitivity to distance, it appeared that "cereals, meat and tobacco" industries are more sensitive to linguistic ties than 'metalworking machinery or electricity current' industries (Ghemawat, 2001).

Cultural Distance

Cultural attributes determine how people in a country interact with another, with institutions and with companies (Ghemawat, 2001). National cultural distance can be defined as the extent to which the shared norms and value in one country differ from those in another. (Drogendijk & Slangen, 2006). Many studies in the stream of international business measured the cultural distance between an MNEs home country and the target country, based on Hofstede's four dimensions of nation culture (power distance, uncertainty avoidance, individualism and masculinity).

Brouthers and Brouthers (2001) examined national cultural distance in relation to entry mode choice from four different home countries, doing business in five central and eastern European countries. They revealed that firms entering culturally distant markets low in investment risk tend to prefer cooperative modes of entry, which means cultural distance influences entry mode decisions. In their conclusions, Brouthers and Brouthers (2001) also refer to the fact that criticism has raised towards explaining entry mode studies 'simply ' based on using cultural differences. They suggest additional factors such as language differences and personal perceived impacts instead of 'national cultural level'.

According to Welch and Welch (2008), language is inherent to a specific culture and used by speakers to create meaning. Translation of business terms however can easily create misunderstanding. The more two cultures differ, the more demanding it will be for members from these cultures to understand each other, thereby increasing the risk of communication problems. Besides troubling communications, language diversity may even emerge as a critical source of conflict, due to the effect of external uncertainty (López-Duarte & Vidal-Suárez, 2010). They studied the effect of external uncertainty, related to cultural distance, political risk and language diversity, on the entry mode choice of Spanish firms, They refer to the suggestion that language barriers aggravates problems and costs due to investing in uncertain environments

After studying the effect of national culture on entry mode choice of firms entering the United States, Kogut and Singh (1988) share the opinion that cultural distance is similar to psychic distance as used by the Uppsala model.

Psychic Distance

Psychic distance defines "the sum of factors preventing the flow of information to and from the market and emphasizes the extent to which environmental differences such as culture and language can form barriers that may impact entry mode choice". (Laufs & Schwens, 2014; Dow, 2000). Studies that show the impact of psychic distance on entry mode choice remain largely inconclusive according to Laufs and Schwens (2014). Psychic distance is studied widely however in relation to the Uppsala internationalization process (Johanson & Vahlne, 1977), which argues that a lower psychic distance means that a country is more likely to be selected. The influence of psychic distance declines between the first and second market entry decision. The more international experience, the lesser the impact of psychic distance. Brewer (2007) states that managers tend to avoid markets that are difficult to know, especially early In the internationalization process. Dominguez and Mayrhofer (2017) studied internationalization stages of traditional SMEs and refer to the importance of psychic distance as being perceived by managers on internationalization of SMEs. Their multiple case study of French SMEs shows they are adaptive to global competition and that due to external factors they can decide to increase, decrease or re increase their international expansion. In their study 'Developing a multidimensional instrument to measure psychic distance stimuli', Dow and Karunaratna (2006) include language as a stimulus playing a role in the managers perception of psychic distance, influencing internationalization decisions. They argue that at theoretical level cultural distance is a component of psychic distance.

Similarity in languages present efficiencies in communication and according to Dominguez and Mayrhofer (2017) firms remain within their language groups when they start international expansion. Difference in languages between markets however, increases both cost and the risk of a transaction and as a result language therefore influences internationalization patterns (Dow & Karunaratna, 2006). They also state that both market selection and entry mode decisions have strong links with psychic distance. Laufs and Schwens (2014) share a similar conclusion, also considering communication barriers as a form of psychic distance. Hurmerinta, Nummela and Paavilainen-Mäntymäki (2015) refer to language as a key component of experienced psychic distance.

Kontinen and Ojala (2010) further point out that factors such as language, can either prevent or disturb information flows between firm and market. They argue that language skills are an important distance bridging factor for SMEs. In their research to Finnish manufacturing firms active in the French market, they revealed that despite the free trade zone in Europe, France was considered a distant country by all case firms, mainly for linguistic and cultural reasons.

Using distance bridging factors such as recruiting local employees (agents) and language training, these SMEs managed to be active on the French market (Kontinen & Ojala, 2010). Another important component of psychic distance is mentioned by López-Duarte & Vidal-Suárez (2010), being the so-called linguistic distance between home and host countries.

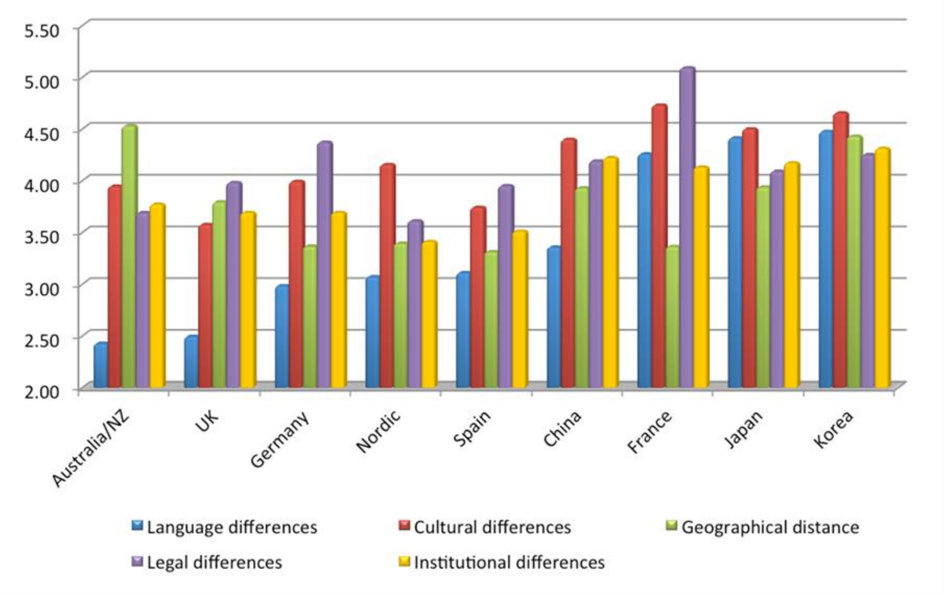
Linguistic Distance

A few initial studies refer to language distance as being the extent to which languages differ from each other. Miller and Chiswick (2004) developed a quantitative measure of the distance between English and other (non- native American) languages. Their measure of 'linguistic distance' is demonstrated through analyzing immigrants in the United States and Canada. Linguistic distance is also used by Hutchinson (2005), concluding that a greater linguistic distance between the US and other countries reduces both imports from and exports to the United states. Dow and Karunaratna (2006) developed indicators to measure differences in language, in relation to international business studies. These measures focus on the difference between the major languages of two countries and the reported incidences of one countries major language(s) within the other countries. This enables a quantitative approach to measure language distance. As a result their study shows statistical support, although 'small' for their hypothesis that language differences between countries are negatively associated with the intensity of trade between those countries.

In their study on the role of language differences in headquarter – subsidiary communication, Harzing and Pudelko (2014) found a strong correlation between language and cultural differences. Figure 5 illustrates, various perceived differences, from language difference to cultural difference. It shows a high perceived language difference for France.
It also shows that the perceived language difference in Japan and Korea is almost as important as cultural difference and more important than geographical difference.

Finally, Schotter and Beamish (2014), studied location avoidance of MNEs in relation to contextual dimensions as experienced by managers, such as climate, safety, food and language. In their research, they refer to personal 'hassles', whereas sociocultural studies using distance models such as psychic distance, cultural distance and the CAGE model, focusing at firm and country level. Schotter and Beamish (2014) refer to language as being a so-called hassle factor, however relatively small, but playing a role in location choice of MNEs.

Figure 5: Perceived language, cultural, geographical, legal and institutional differences



Source: Harzing & Pudelko, 2014

2.2.3 Language impact on internationalization

As mentioned, language is referred to in various distance concepts related to the internationalization process of firms. This section outlines a summary of most found examples of the exact impact that language difference may have in the internationalization process of firms. Various studies refer to a direct link between an increase of transaction costs due to language difference. Other studies refer to a direct link between market selection and trade volumes due to language difference. At social level, studies have also revealed a direct link to power shift due to language difference.

Marschan et al. (1997) came to the conclusion that language can either facilitate or obstruct firms in their internationalization process. Crick (1999) studied the use of languages within UK based SMEs engaged in export activities. He argues that language might benefit firms, due to “enhancing the image” and “an increase in orders”.

Costs

Harzing et al. (2011) provided an empirical analysis of the language barrier in German and Japanese Headquarters and subsidiaries. They concluded language as being a barrier to doing business abroad, and language difference leading to higher costs. López-Duarte & Vidal-Suárez, (2010) go further and assume that language difference is likely to influence transaction costs as well as internationalization decisions such as entry mode choice. If language difference influences transaction costs (López-Duarte & Vidal-Suárez, 2010; Harzing et al., 2011), it is relevant to know what costs are implied.

Oh et al. (2011) examined the role of four major trade languages (English, French, Spanish and Arabic) in international trade, specifically focusing on the transaction costs of country pairs that do not speak the same language and the differences between trade and FDI. According to Oh et al. (2011) "Economic transactions require more than the presence of goods to exchange; interested parties must possess the ability to express needs for those goods and to negotiate acceptable arrangements". Time and effort required to attain language competency are part of the transaction costs of languages in economic exchange. In their findings Oh et al. (2011) conclude English causes the lowest transaction costs.

Language diversity can increase the costs of transactions from searching for information in host countries, to exchanging information with various stakeholders such as suppliers and competitors (Luo & Shenkar, 2006). Translation, time and misunderstandings (related to knowledge transfer) may each lead to extra costs (Welch & Welch, 2018). Melitz and Toubal (2014) go further in defining variable (interpreters/translations) and fixed (language training to existing staff) costs related to language and internationalization. Welch, Welch & Marschan-Piekkari (2001) add to this this that working with a translator, may even have quality and time implications for effective communication and information flow and risks may rise due to the inaccurate translation of technical information.

Market Selection and Gravity

Besides costs, language difference also tends to influence market selection and trade volumes. Welch et al. (2001) have tried to unbundle language from cultural and psychic distance, in relation to firms' internationalization, especially looking at how language influences foreign market expansion and the role of a corporate language. In their study they refer to a strong tendency of Scandinavian firms staying within the same language group in the earliest stages of international operations, avoiding coping with different language. Welch et al. (2001) also show that Japanese firms for example, once having gained competence to speak English, extent their operations to other English speaking countries.

Tenzer et al. (2017) recently reviewed the current status of language related studies in international business. They refer to the so-called Gravity Model , showing that language commonality correlates positively with the size of bilateral trade. Although most research about the relationship between language and trade is based on bilateral trade flows, Sauter (2012) goes further to industry and intra-country level, revealing that countries with a common language, trade 1.5 times more and a common language increases trade flows by 44%. Also Oh et al. (2011) have tested language variables in the grade gravity model, showing an increase in bilateral imports of 95% when both countries speak English. Economists have even predicted a change in international trade by > 200%, when referring to ‘common language’ as a distance variable (Ghemawat, 2001).

Several studies further refer to the possible impact of language regarding the choice of location and foreign trade destination. An English speaking environment for example was critical for the location choice of Japanese manufacturing firms. (Marschan et al., 1997; Sauter, 2009). According to Sui, Morgan and Baum (2015) however, the question if language has a causal effect on trade is not yet resolved. This opens the question whether the available language knowledge of Dutch SMEs has an effect on internationalization decisions such as market selection.

Social Identity - Power

The Social Identity theory goes further. Being related to organizational psychology, it explains that due to language diversity, employees can cluster into groups, supporting interpersonal relationships and knowledge exchange, in case of language similarity (Tenzer et al., 2017). However language difference can also separate expatriates working for MNEs as out-group members, thus negatively influencing coordination, communication and knowledge transfer (Tenzer et al., 2017). According to a study by Harzing and Feely (2008), cluster forming due to language difference, can block effective collaboration between partners and even avoid the emerge of trust. Social Identity theory further links to power construct. According to Welch et al. (2001) limited language skills appear to prevent MNE subsidiary staff to build horizontal relationships with other units and headquarters. Thus considering language to be an important channel of influence through which power is exerted in MNE’s. Welch et al. (1997) state that individuals may receive power due to language facility, dealing with critical information. These individuals may also deliberately distort or block information transmission. Harzing and Pudelko (2013) also refer to the role of language as a formal and informal source of power. Welch et al., (2001) conducted research at the Finnish multinational Kone, revealing that language competence gave some individuals increased power. This study however did not reveal how the power was used.

Implementation of language

As explained, costs, internationalization choices, and social impact/power are factors that can be influenced due to language difference. Given the various studies found in business literature it can be assumed language is an import element within the internationalization process of firms. Assuming that firms, especially those active in the international arena, are aware of the importance of language, it is further interesting to know to what level they are incorporating language in their strategy.

Larger firms are known to have greater human and financial resources, which enables them more easily to hire language experts. According to Crick (1999) company policy of British SMEs towards language training and recruitment shows that they do not provide or encourage language training and that these companies rely on employees existing skills, due to cost implications. Taking this a bit further one might assume that nowadays firms consider the implementation of language as part of their internationalization strategy, in order to diminish the effect of differences in language between companies. Various studies refer to this strategic implementation (Luo & Shenkar, 2006; Welch & Welch, 2018). Perhaps the need for strategic implementation is strengthened by Melitz and Toubals' (2014) referral to a survey of 2000 European exporting SMEs, showing an increase in the foreseen need for additional expertise of foreign language.

Current developments in information technology and communications, as well as the increasing role of English in international business are mentioned in business literature. According to Sauter (2009) these developments are removing many 'boundaries', minimizing the impact of culture and language on international business activities. Welch et al. (2001) argue that despite English dominating the internet and ongoing development of translation software, foreign language will still be involved in international operations.

2.3 Research gap

This study aims to develop knowledge in the field of internationalization (market selection and entry mode) of SMEs and the specific role of language within this process. Language is referred to as 'the forgotten factor' or 'management orphan' in international business literature (Harzing et al., 2011; López-Duarte & Vidal-Suárez, 2010). This study focuses at a niche, Dutch horticultural SMEs.

Many studies have focused on internationalization and distance concepts. These studies however focus mainly on market selection and market entry decisions of MNEs (Brouthers & Brouthers. 2001; Kogut & Singh, 1998; Laufs & Schwens, 2014). Compared to MNEs however, the internationalization process of SMEs is different (Musteen et al., 2010), as they tend to make "non rational" entry decisions compared to MNEs (Musso & Francioni, 2014). They even tend to interact differently with their environment, due to factors such as management style, ownership and resource availability. (Brouthers & Nakos, 2004; Laufs & Schwens, 2014). Due to these differences Schwens et al. (2011), conclude that study results from larger MNEs are not fully generable for SMEs, suggesting further in-depth research in particular to SME entry mode choice.

When we look more specifically at language, and its relation to the internationalization process of firms, further calls for research arise (Brouthers & Brouthers, 2001; Tenzer et al. 2017), especially in the field of SMEs (Laufs & Schwens, 2014).

From a strategic perspective, this study aims to fill the gap in international business literature, by revealing more information about if and how language difference influences a firms' decision about market selection/avoidance or market entry. Taking this further, this study also aims to show operational consequences due to language difference during a firms internationalization process, such as costs and power difference between partners. Maclean (2006) states that language evolves from a 'minor issue', to strategic status within a transnational corporation. Language management takes on a strategic dimension, it is no longer a 'minor issue'. Therefore and looking at the current availability of literature at SME level about internationalization process and language influence, it seems relevant to add in-depth knowledge to this field. Besides contributing to gaps in literature, this study contributes to provide information for SMEs when making strategic choices about internationalization.

2.4 Research objectives and questions

The objective of this study is to provide a better understanding about how language difference between home and host countries influences the internationalization process of Dutch SMEs. The focus lies on Dutch horticultural SMEs.

The following main research question is therefore formulated:

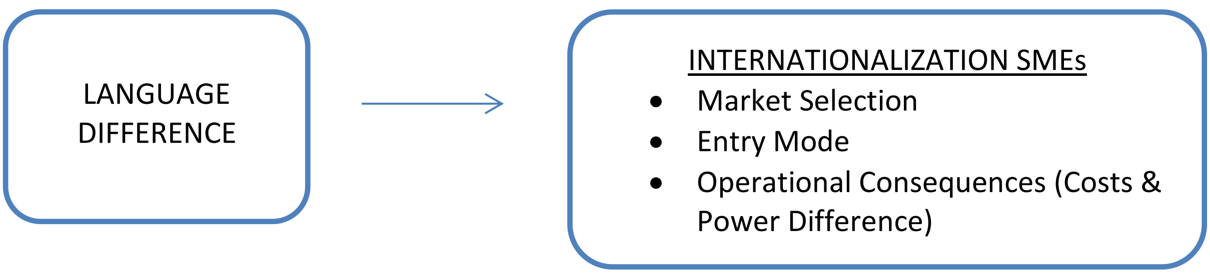
How does language difference between home and host country, influence the internationalization process of SMEs?

The following sub questions are proposed to support answering the main research question;

a. How does language difference play a role in market selection decisions of SMEs?
b. How does language difference between home and host country influence entry mode decisions of SMEs?
c. What costs are associated with the internationalization process of SMEs and how does language difference cause these costs?
d. How does power difference between partners influence the internationalization process of SMEs?

The research framework shows the four main research fields of this thesis, distinguishing language influence on internationalization decisions such as market selection and market entry on the one hand and operational consequences, such as power difference and costs, on the other hand.

Figure 6: Research Framework



3. Methodology

The previous chapter presented a discussion about literature, followed by the research gap, the research framework and propositions. In the following chapter the methodological approach applied in this research will be presented. The methodology is applied to answer both research questions and propositions. Further, the research design and scope will be explained, followed by the data collection process. Finally, the data analysis will be discussed.

3.1 Research design

Compared to the numerous studies that have been conducted on the internationalization process of MNEs, less studies have focused on SMEs (Musso & Francioni, 2014; Kontinen & Ojala, 2010). Regarding language studies in international business, until recently most studies focused on MNEs (Tenzer et al., 2017). This study has the objective to gain a deeper understanding of the relation between language difference between home and host country and the internationalization process of SMEs.

Various studies in international business refer to language as a complex (Chiswick & Miller, 2004) social phenomenon (Tenzer et al. 2017). Given its complex nature, Tenzer et al. (2017) state that a qualitative approach towards language related research is highly suitable. Having reviewed a large number of articles on language in international business, Tenzer et al. (2017) summarize that both quantitative and qualitative studies have been conducted on this topic in the past years. They argue however that quantitative research towards language in international business has been conducted mostly in relation to the gravity model of trade.

Yin (2003) argues that qualitative research is appropriate when investigating complex social phenomena. Furthermore, it has been established that qualitative research is most appropriate for studies that aim to answer a how question (Yin, 2003; Easterby-Smith, Thorpe & Jackson, 2015).To analyze therefore how language influences the internationalization process of SMEs, a qualitative and explanatory multiple-case research design shall be applied. The advantage compared to a single-case design lies mainly in robustness and generalizability of results (Yin, 2003).

According to Yin (2003), interviews are essential to case studies since it involves human actions. Understanding how and why a decision was made, is supported by case study research (Myers, 2009). Through designing multiple-case research, patterns can therefore be identified about the influence of language on the internationalization process. In order to gain maximum insight in the (decision making) process regarding internationalization, interviews shall only be conducted with persons that are directly involved, responsible for and experienced with this process.

3.1.1 Interviews

According to Saunders and Lewis (2012) various types of interviewing exist, depending either on structure and formality. So-called structured interviews use questionnaires. These are also referred to as 'quantitative research interviews'. So-called unstructured interviews are informal with no predetermined list of questions or aspects to be explored. The semi structured interview method is non standardized and often referred to as qualitative research interviews. This method is chosen for this thesis, since it offers the opportunity to follow a list of themes and allows some key questions, although there lies flexibility in the order of questions and between interviews (Saunders & Lewis, 2012). Given the exploratory nature of this study, an in-depth or semi structured interview method is appropriate, this allows to retrieve the reasons why and how interviewees make decisions related to language and internationalization. Personal contact is considered to be preferred by the interviewees, since it gives them the opportunity to give and receive feedback during the interview process, providing a form of 'trust', which contributes to the interview process (Easterby-Smith et. al., 2015; Saunders & Lewis, 2012).

In order to assure quality of the data, also issues such as reliability, bias, generalizability and validity are relevant according to Saunders and Lewis (2012). Reliability is assured as much as possible due to the fact that the researcher knows all interviewees. All firms are a member of the Dutch trade association Royal Anthos. When invited by telephone, all interviewees referred to the topic as very interesting and stated their willingness to participate. Bias is reduced as much as possible by keeping various elements constant and similar. All managers/CEOs where interviewed personally by the interviewer in their own office and the interview was conducted in Dutch, the mother language of researched and interviewees.

A compact interview guide was used during all interviews, enabling to follow the key topics that have been identified from literature. During the interview the researcher allowed space for the interviewee to freely speak and express their experience. The guide ensured however to various key topics to be addressed during the interview. The interview guide can be found in appendix 1.

3.2. Research scope

This research focusses on SMEs that are active in the Dutch horticultural industry. The Netherlands has a strong position in the international horticultural business. In 2017 the total export of flowers and plants, increased to a value of over 6 billion euro. (Rabobank, 2018) The scope of this research is limited to horticultural SMEs, located in various regions of the Netherlands. All firms fall within the European Commissions' definition of SMEs, officially having less than 250 employees and a yearly turnover lower than 50 million euro. According to the European Commission (2018) SMEs represent 99,8% percent of the businesses in the European Union, generating more than 50 percent of value of the non-financial business sector within the European Union.

Besides selecting Dutch horticultural SMEs, a few more selection criteria were applied, contributing to the quality of data collection. Assuring internationalization experience, all firms are:

- internationally active in minimal 5 different countries,
- internationally active for a minimum of 15 years

All firms are specialized in trading plants and flower bulbs internationally and have carefully been selected by studying their website profile and their company profile as being registered as a member of trade association Royal Anthos. Each participating firm was contacted by telephone in advance by the researcher, asking permission to participate in the research. All participating firms are founded between late 1700 and 2001, internationally active in between 9 and 30 countries. Most companies are family owned, even up to 7th generation.

In order to gain deeper understanding in how language difference influences the internationalization process of firms a limited amount of firms shall be interviewed. In order to reduce bias, and to retrieve maximum 'contextualized' input, all interviews are held in Dutch, mother language of both student and interviewee. Interviews are held with owner (CEO) or managers responsible/closely involved in the internationalization process.

The world knows many languages, therefore a limitation factor was applied in order to enable a better and deeper understanding in how certain language difference influences internationalization. Geographical and cultural distance is kept ‘constant’ for four ‘host countries’ in which all selected firms were or have been active. According to Chiswick and Miller (2004) ‘linguistic distance’ affects the choice of destination. Assuming that English is spoken by all interviewed firms and English being a common language in international business (lingua franca), the United Kingdom will be one of four host markets included in this research. Besides that, due ensure cultural, geographical and linguistic difference between host markets, France, Russia/Ukraine and China are included as host countries in this research. The native languages in the selected host countries are all part of different language families (Dow & Karunaratna, 2006).

The selected firms and respondents in this report are listed by fictitious names due to privacy reasons. An overview of these cases can be found in table 1.

Table 1: Overview of cases

Case	Firm	Date Interview	Function interviewee
1	Ulmus	20 04 18	Co-owner
2	Aster	26 04 18	Co-owner
3	Hosta	24 04 18	Owner
4	Malus	26 04 18	Co-owner
5	Lillium	09 05 18	Director
6	Tulipa	08 05 18	Co-owner
7	Galanthus	09 05 18	Co-owner
8	Fagus	17 05 18	Director
9	Betula	06 06 18	Co-owner

3.3. Data collection

This paragraph explains through which steps the various data was collected for this research. Primary sources were used by interviewing CEO/Co-owners of the selected firms. Secondary data was used first by reviewing websites of several firms and a database of the trade association Royal Anthos. The secondary data was used to make a careful selection of companies for the interviews as described in paragraph 3.2.

3.3.1. Interviews

After a primary selection, all firm were contacted personally by the researcher, asking permission to conduct the interview at the firms head office location and with the required interviewee, being CEO owner/director. All interviews were conducted face-to-face and were held in Dutch, the mother language of both researcher and interviewee. This enabled the researched and interviewee to speak freely in their mother language, reducing bias. The explorative nature of this form of research provides opportunities for mutual discovery and explanation, enabling the researcher to access information in context and learn about phenomena (Easterby-Smith et al., 2015).

Before the start of each interview, the interviewees were asked if it was possible to record the interviews. Each participant agreed to this and as a result, nine interviews were recorded. The interviews lasted between 35 and 60 minutes.

The interviews were conducted in a semi structured way, following a pre-designed interview guide. The purpose of this guide is solely to ensure that particular topics are covered during the interview. Each interview started with a short introduction by the researcher about the purpose and topics of the interview. The interviewee was then asked to provide some general information about the company and the drivers for internationalization. The following topics included questions about language influence on market selection and market entry (internationalization decisions). These were followed by questions about the operational consequences of language difference; costs and power. The researcher kept the guideline insight during all interviews, making sure all questions of the guideline were answered. During each interview the researcher emphasized to let the interviewee answer ‘freely’ to each question. This enabled the researcher to receive as much contextual data as possible, to answer the research questions. In some cases the order of questions and answers changed.

The guideline however was followed and all questions were answered by the interviewees. In some cases questions where probed, to make sure an answer was retrieved. Each interview ended with an open question asking if the interviewee believes language difference influences internationalization process.

3.4. Data analysis

This section explains the data analysis method. According to Easterby-Smith et al. (2015) data needs to be organized before it can be analyzed. All primary data is originally gathered by recording each interview. All records were stored and labeled, and each record was transcribed into a separate word document. After that, the researcher read and re-read the entire data set to get familiarized with the obtained data. While doing this, the researcher noted outcomes and things of interest in various matrixes. By doing this, emerging factors that are relevant for answering the research question are determined more easily, (Easterby-Smith et al., 2015). After transcribing and reading each interview, a consequent coding process was applied, using matrixes and colors (excel). According to Myers (2009), coding assists to reduce the size of data. The researcher did not use a program for the coding process, due to the relatively limited amount of interviews. During the coding process data related to the internationalization decisions about market selection and market entry as well as data about the operational consequences, such as costs and power, were marked in separate colors and documented in tables. Further relevant subjects arising from the data were also marked in separate colors and documented in tables. All tables provide a better overview of the data and can be found in chapter four.

During the coding process the setup of the interview guide was followed, enabling a more easily analysis of the data. In the second phase all the concepts and themes are being compared across the interviews. The coded concepts, patterns and linkages between the concepts and themes, form a rich dataset. Further, the different answers from the interviewees are combined, trying to understanding the overview outcome of the research and enabling to make a link with the different theoretical concepts.

By doing this, a more thorough insight is given on the impact of language difference between home and host countries on the four chosen arguments from literature: market selection, market entry, costs and power difference.

4. Results

In this chapter the results of the research are presented. These are divided into four sections, loosely following the setup of the interview guide. First the general firm and its internationalization characteristics will be described. Secondly data concerning market selection and language will be described. Third the market entry choices related to language difference will be described. Finally the operational consequences of internationalization and language difference are described.

4.1 General characteristics

All nine firms that have been included in this research are SMEs active within the Dutch horticultural industry. The Dutch ornamental industry is known worldwide for its flower bulbs, flowers and plants. The Dutch ornamental industry accounts for the worlds' second largest ornamental trade value after the United States, representing a value of 9.1 billion euro in 2017 (Rabobank, 2018). The selected firms for this research are all member of Royal Athos, the Dutch trade association for flower bulbs and nursery stock. In total approximately 400 firms are internationally active within the Dutch flower bulb and nursery stock industry, representing a production value of approximately 1.2 billion euro (Royal Anthos, 2018). The selected SMEs for this research are all internationally active for a minimum of 15 years and the majority of these firms are family owned. Table 2 shows some general characteristics about these SMEs, such as the year of foundation, the amount of employees and since what year they started their international activities.

Table 2: General characteristics of SMEs

Firm	Founded	Generation	Employees	Internationalization since
Ulmus	1791	7th	30	Late 1800
Aster	1923	3rd	50	Late 1990
Hosta	1998	1st	40	2000
Malus	1964	3rd	20	1980
Lillium	1862	6th	50	Early 1900
Tulipa	1929	3rd	40	1950
Galanthus	1987	2nd	65	Early 1990
Fagus	2001	-	16	2001
Betula	1940	3rd	100	Mid 1900

Internationalization Drivers

Firms have various motivations for internationalizing (Johanson & Vahlne, 2009) In order to gain a more thorough insight in the ways of internationalization of the participating firms, each firm was asked to give a short introduction about its internationalization history and their main drivers for internationalization. Further information was requested about the person(s) responsible for internationalization decisions. An overview is given in table 3. Eight of the interviewed SMEs are family owned. This corresponds with findings of Laufs and Schwens (2014), stating that the majority of SMEs are family owned. Data also corresponds with literature regarding the fact that in most of these family owned firms, the director and or co-owner is responsible for the internationalization choices.

Some interviewees state that the internationalization choice is caused by demand from foreign markets, for example Ulmus:

*"Russian and German clients found our company and proposed to do business. After checking whether this was commercially interesting, the company decided to export" (*Co-owner Ulmus, 2018), or Fagus states; *"When participating in exhibitions, foreign clients introduce themselves and propose to do business"* (Director Fagus, 2018).

The drivers for internationalization vary from growth ambition to market saturation and demand for products and expertise. There is a strong connection between product demand and knowledge (technical or marketing) According to Ulmus, *"The drivers for internationalization are similar to drivers for doing business nationally, as long as it is commercially interesting"* (Co-owner Ulmus, 2018). According to Malus, *"Better prices are paid abroad for our products, and there is a strong demand from abroad for Dutch horticultural products and expertise"* (Co-owner Malus, 2018). Lilium and Tulipa both state; *"The Dutch market is saturated and too small, and there is a strong demand for Dutch horticultural products in combination with our expertise"* (Director Lilium, 2018, Co-owner Tulipa, 2018) According to Betula, the drivers for internationalization are commercial, stating; *"Better prices are paid abroad and we choose to be an exporting firm instead of importing"* (Co-owner Betula, 2018).

Six cases confirm that the most important drivers for internationalization are of commercial nature. This corresponds with literature, whereas Johanson and Vahlne (1977) state that internationalization is primarily motivated by the desire to increase sales or market seeking (Dunning, 2000; Franco et al., 2008). The specific demand for Dutch products and expertise is explicitly mentioned by in cases, thus playing a significant role as an influencer for internationalization.

Table 3: Internationalization drivers and decision making of each firm.

Case	Drivers for Internationalization	Decision maker
Ulmus	Commercial reasons, similar drivers as being active in the Netherlands	General director and sales team, in general the market decides
Aster	Demand for Dutch product and company expertise about product and concepts	Sales managers and owner/director
Hosta	Commercial reasons, Dutch market is too small	Owner
Malus	Better prices abroad, growth ambition, demand for Dutch product and expertise	Owners
Lillium	Commercial reasons, Dutch market is too small, demand for Dutch product and expertise	Commercial manager
Tulipa	Dutch market is too small, demand for Dutch product and expertise	Management Team, owners
Galanthus	Commercial reasons, Dutch market is too small, demand for Dutch product and expertise	Sales director, owner
Fagus	Overproduction, demand for Dutch products	Director
Betula	Commercial reasons	Owners, Director

4.2 Market selection

After a general introduction about the firms history, general characteristics and internationalization drivers, questions were posed regarding influence of language difference on internationalization decisions and operational consequences. Interesting findings emerged from the data retrieved by the interviews. According to Sauter (2012) and Tenzer et al.(2017), SMEs choose or avoid geographical markets due to perceived language difference between home and host country.

All firms where asked whether and how language difference influences their market selection decisions. Emphasis was put by the researcher on gaining answers about the four selected host countries. In general all firms confirmed that language knowledge of the owner/CEO plays role within the decision making process of internationalization. They tend to choose more easily for geographical markets of which they manage to speak the mother language or when both (potential) partners speak a similar language such as English or German. Some firms also answered this question, referring to a more broad market perspective. Hosta for example referred to the French language in general and explained his experience with the French speaking Provence of Québec in Canada. Few firms also responded more generally about their internationalization experience in Scandinavia or East and Central Europe. In total, 6 cases confirmed language difference currently does not cause a barrier, due to which it influences their market selection or due to which markets would be avoided. Lillium states; *"Unless an embargo is active, no other barriers exist that would influence our decision in doing business abroad. Language forms no barrier for this"* (Director Lillium, 2018).

Interesting however is that two firms explicitly stated that language difference <u>does</u> play a significant role in selecting of avoiding a market. Hosta, active worldwide, recently ended its activities in France due to language problems. Hosta states, *"I am responsible for international activities myself. Since I do not speak the French language sufficiently, I have decided to end my activities in France and I am considering similar steps in Quebec, Canada"* (Owner Hosta, 2018). Galanthus confirms the French market is partly ignored due to language difference. He states: *"France has market potential for us, due to not speaking the French language we are not fully active on this market. The French would like to import more of our products, but due to language difference this is potential market is not fully served by us"* (Co-owner Galanthus, 2018). Another firm states that approximately 10 years ago, the French language was key influencer for not selecting France as a host market. These results indicate that the French language, influences the market selection process of SMEs.

Although Sui et al. (2015) argue the question whether language has a causal effect on trade, these few examples prove an effect. Both Hosta and Galanthus acknowledge they miss the market potential due to this language difference.

Five of the interviewed firms stated that language difference used to influence internationalization choices. Malus states; "*Approximately 20 years ago me and my brother did not speak French and selected markets such as Germany and the UK, avoiding France. Nowadays France is a very important market for us. Although we do not speak French very well, we can manage using the English language"* (Co-owner Malus, 2018). Nowadays however the majority of the firms acknowledges English of growing importance as business language, especially in markets such as China and Russia. This corresponds with findings of Tenzer et al. (2017), confirming the increasing dominance of English as lingua franca in international business. Fagus states; *"The importing firms in China have representatives that speak English. Problems nowadays arise due to bureaucracy and culture difference"* (Director Fagus, 2018).

Betula goes further and states*; "We knew Russia was an interesting market, but waited with selection/entering until we found a capable person that could represent us and speak the Russian language"* (Co-owner Betula, 2018).

4.3 Market entry

After questions related to how language difference influences market selection, all firms where asked which international market entry mode was applied in the four host countries and how language difference influences this process. All firms confirmed that making an entry mode choice is an important decision within the internationalization process. This corresponds with the findings of Musso and Francioni (2014). All firms, except one, have followed a more incremental path of internationalization, according to the Uppsala model and starting in nearby countries such as Germany, Belgium, the United Kingdom and Scandinavia. This corresponds with findings in literature (Vahlne & Johanson, 2017; Dominguez & Mayrhofer 2017), whereas the Uppsala model is favored by traditional firms such as family owned SMEs (Laufs & Schwens, 2014). An interesting finding is that in two cases the market entry process in France started later than the market entry in China, as can be derived from table 4. This might contribute to the fact that the French language influences the entry decision when a firm does not master this language.

Table 4: Entry years in host markets.

Case	France	United Kingdom	Russia / Ukraine	China
Ulmus	Nineties	1800	Jaren 90	-
Aster	Nineties	Nineties	-	-
Hosta	Early 2000	Early 2000	Early 2000	Early 2000
Malus	Nineties	Nineties	Nineties	2008
Lilium	Nineties	-	-	1997
Tulipa	2000	Nineties	Nineties	1998
Galanthus	Nineties	Nineties	Nineties	-
Fagus	2004	2001	2004	2001
Betula	1983	1978	2002	2014

SMEs mostly expand to foreign markets as exporters, incrementally following more traditional paths. (Martineau & Pastoriza, 2016; Pinho, 2007). When analyzing the emerging data from the interviews, all cases apply export towards the different host markets, confirming theory. Non-equity entry forms such as export or using contractual agreements with agents are preferred by SMEs, due to limited personal and financial resources, compared to MNEs (Laufs & Schwens, 2014).

Various entry modes emerge from the data, which are applied by the firms in the four host markets. Table 5 shows the different entry modes in host markets. These are either export, Joint Venture or by using Agents. In Russia/Ukraine, four of all nine cases applied export as their entry modes. In China three of the seven active firms on this market applied export as their entry mode. In the UK, five out of nine firms applied export as their entry mode and in France all firms applied export as their entry mode. Besides these four countries, some of the interviewees mentioned wholly owned entry forms in various countries. Lilium has its own production location in New Zealand and Malus has a wholly owned sales office in Poland. These host markets however fall beyond the scope of this thesis.

Fagus states: *“We are developing online sales facilities, by which we strongly depend on good technical translations and a language competent back office. By developing online business we also avoid language hassle. We have hired a native French speaking employee in order to conduct export in France, both personal contact with clients and speaking the French language is essential to successfully do business there, also because the French hardly speak or refuse to speak English”* (Director Fagus, 2018).

Before entering a host market most firms have participated in a trade exhibition or traveled in this market, starting to build a network. Malus entered China through a joint venture, after finding a trustworthy partner, speaking sufficient English. Language does not influence the market entry strategy according to him. Working through a joint venture makes it more easy to understand ways of working and culture, it is not possible to enter this market by yourself as a Dutch firm. Galanthus states; *“We entered Russia through a joint venture, our partner spoke English, which enabled us to start our business in Russia”* (Co-owner Galanthus, 2018). According to Tulipa there is a connection between language influence and market entry, stating: *“Choosing for an agent in China, means we have to trust this person, especially since we do not speak Chinese. We chose to enter France by using a native French speaking agent, enabling us to do business. Selecting and entering the French market without speaking the French language is impossible”* (Co-owner Tulipa, 2018). Choosing to work with agents can also have a downside according to Ulmus, stating: *“This is more a legal aspect. We ask ourselves the question with whom does the client have a formal relationship? With us as a firm or with the agent? An agent can easily work together with competitors, which may form a risk. Ulmus used to work with an agent in France but has recently hired a native French speaking employee, in order to be able to serve the French market”* (Co-owner Ulmus, 2018).

Fagus also states; *“The deeper you penetrate a market, the more important knowledge of local language becomes. Large importers for example speak sufficient English, but small local buyers only speak their mother language”* (Director Fagus, 2018).

Hosta is setting up a joint venture in both Quebec, Canada and Ukraine. He states: *“Language difference is one of the reasons for doing this, mainly because the local partner than speaks the language of the host market, which facilitates information flow and doing business. Language however is not the main reason for choosing for a joint venture. When both partners invest, this involves a certain form of trust in the relationship”* (Owner Hosta, 2018). Malus is also starting a joint venture in Ukraine, which makes ‘local understanding of ways of working’ manageable, benefiting business opportunities.

This corresponds with findings of López-Duarte & Vidal-Suárez (2010), that participating in a joint venture in case of a low equity investment allows a firm to benefit from the partners familiarity with culture and knowledge of the host country.

According to Lillium, approximately 20 years ago market entry in the United Kingdom and France mainly occurred through agents, often multilingual native Dutch persons. He further states: *"The structure of agents is disappearing in Europe due to an increasing network of distribution"* (Director Lilium, 2018).

Betula however strongly believes in using agents when entering a host market, stating: *"We have used local native agents in entering all four host markets. Due to their native character this enables us to overcome cultural and language issues" (Co-owner Betula, 2018).* He further states: *"People want to buy from people like themselves. One can control the grammatical language, but reading through the lines is hard, therefore its best to be native speaker"* (Co-owner Betula, 2018).

Table 5: Entry mode host countries

Case	Russia / Ukraine	China	UK	France
Ulmus	Export	-	Export	Export/Agent
Aster	-	-	Joint Venture	Export/Joint Venture/Agent
Hosta	Agent/ Joint Venture	Export	Export	Export
Malus	Joint Venture	Joint Venture	Export/Agent	Export/Agent
Lillium	-	Export	-	Export
Tulipa	Export	Agent/Export	Export	Agent/Export
Galanthus	Joint Venture	-	Brokers	Export
Fagus	Agent/Export	Export	Export	Export
Betula	Agent	Agent	Agent	Agent

4.4. Operational consequences

This paragraph presents the results of the operational consequences that are due to language difference and internationalization. According to Welch and Welch (2018) costs involved in internationalization increase when perceived language difference between home and host country is larger. Firms were asked to specify the costs that could be identified (in) directly during the internationalization process, due to bridging language difference and how this causes these costs. Besides costs, power difference can occur during the internationalization process due to language difference. According to literature (Harzing & Pudelko, 2013; Welch et al., 2001) language may form a power source, influencing flow of information. Although this theory about power difference refers to MNEs, firms were asked whether experienced power difference between themselves and (potential) business partners in host countries and how this difference is influenced by language difference. Further the view of firms was asked on the increasing influence of digitalization and technology, such as the use Google Translate. Given the importance of English as lingua franca in international business (Luo & Shenkar, 2006), firms were also asked whether they see English as the dominant business language and if they value the use of local languages.

Costs emerge due to internationalization and language difference (Melitz & Toubal, 2014; Luo & Shenkar, 2006). Data from the interviews shows all companies are investing in language courses, related to their internationalization process. Further, data shows that costs related to bridge language difference, are mainly caused by the use of translators during travel or exhibitions or making brochures in local language. The use of translators, hired to cover language difference is experienced differently by the firms in the context of maximizing their international business. Table 6 shows these experiences as well as the firms language competences. According to Welch et al. (2001) the use of translators may have quality implications, leading to risks due to inaccurate translation of technical information. Four out of nine interviewees mention the lack of technical knowledge (jargons) of translators, while this is very important for doing business abroad. Using a translator also causes 'loss of or incorrect information' The example of the old word game in a class room is mentioned spontaneously by two interviewees. When passing a sentence through a group of people, it ultimately returns being completely different from the original sentence.

Ulmus connects language and culture by stating, *"Culture difference is hardly covered by using translators"* (Co-owner Ulmus, 2018). This confirms theory of the widely explained cultural distance model (Ghemawat, 2001), whereas language is inherent to a specific culture and used by speakers to create meaning (Welch & Welch, 2008). Aster goes further and states; *"Its difficult to bond with a translator"* (Co-wner Aster, 2018). Malus uses the same translator in Russia because he was able to bond with this person and build a good connection that helps him with the internationalization process such as transactions and meetings. Four interviewees mention the importance of language difference when dealing with claims, using local language (e.g. French, German or Russian) is necessary during this process. When exporting to 3rd countries (non-European Union members), such as Russia/Ukraine or China, the use of phytosanitary documents is a necessity.

Although these documents defined in English, they must be filled in using correct English. Tulipa rarely uses a translator, stating: "*I experienced working with a translator in Russia once, but I could not understand a word that was translated from English into Russian"* (Co-owner Tulipa, 2018) Aster says*; "When entering a market, calculate to make extra costs due to language difference, its important to express in local language"* (Co-owner Aster, 2018).

Table 6; Language competence and experience with translators

Case	Language knowledge	Experience translators
Ulmus	French, English, German	Culture difference cannot be solved through a translator
Aster	English, German, Norwegian	No bonding
Hosta	English, German, French	No trust in local translator
Malus	French, English, German	Missing good feeling and knowledge. Bonding is important
Lilium	English, German, Spanish	Chinese market would not have been possible without use of translator
Tulipa	English, German, Russian, Finnish, Spanish, French	Very rarely uses translator
Galanthus	English, German, French	Does not use translator
Fagus	English, German, French	Missing knowledge
Betula	English, German, French, Spanish, Italian, Russian	Bonding and trust are important

Power difference due to language difference is experienced differently by the interviewees. Some interviewees express this as an important factor. Analyzing data one may conclude that the more experience persons have in doing international business, the less power difference is experienced. This corresponds with theory (Harzing & Pudelko, 2013; Welch et al. 2001) Table 7 shows the experience of power difference due to language difference.

Fagus states; *"In France power difference was experienced due to lack of language knowledge, especially when trying to compromise business solutions, you miss essential issues*" (Director Fagus, 2018). Hosta states*; "When I am in a meeting with my French speaking Canadian business partners, and they start speaking French to each other during a business meeting, trying to set up a joint venture or working on legal documents, it feels they have an advantage. When I am alone and people at the other end of the table speak among themselves in their mother language before answering to me, this feels like being lagged behind and uncomfortable"* (Owner Hosta, 2018). *Hosta* has similar experiences in Eastern Europe. Gaining more experience however reduces this perceived experience. Malus has similar experience and states; *"In a foreign joint venture you have a minority equity position, due to why less information is shared, which might influence a business deal. Both parties do not show the back of their tongue"* (Co-owner Malus, 2018). Betula has experienced power difference while being in China. *"During business deals we communicate via translators in English. When the Chinese speak locally in their mother language in my presence, I do not understand anything and the lack of information feels uncomfortable. If the translator would be Dutch native speaker I think I would be able to put more pressure and influence in the conversation"* (Co-owner Betula, 2018).

Table 7: Power difference

Firm	**Does power difference occur**	**Does experience reduce power**
Ulmus	Sometimes in case of working with an agent, they receive less confident information	Yes
Aster	Very rare	Yes
Hosta	Yes	Yes
Malus	Yes	Yes
Lilium	Rarely	Yes
Tulipa	Rarely, power lies with agent, he or she can switch partners easily	Yes
Galanthus	Used to occur in the past	Yes
Fagus	Sometimes occurs in France or Poland, we than switch to English language	-
Betula	Yes sometimes	Yes

Firms were also asked how they experience the development of digitalization and technology, such as Google Translate, on the internationalization process, related to language. Most firms, as defined in table 8, consider this useful. They use email or Google Translate in their process to understand internationalization issues due to language difference. Malus states; "*Email enables me to take some time to study an email, its content, trying to understand the meaning"* (Co-owner Malus, 2018). There is also a downside to using programs such as Google Translate. Both Tulipa, Galanthus and Fagus state that Google Translate does not translate full context or technical issues (jargon), making it more dangerous to rely on. Betula mentioned having had contacts with Chinese, who translate conversations or words directly through WeChat. This facilitates business meetings but it does not imply they fully understand the conversation correctly. He also refers to the regular use of Latin names for plants when doing business. These names are more or less 'constant' and very useful in many countries.

Table 8: Digitalization and local langue

Case	**Influence of digitalization (Google Translate)**	**Importance of local language**
Ulmus	Useful	Very important
Aster	Increasingly useful	Important, decreasing
Hosta	Useful to maximize communication	Very important, people will miss-use you if you do not speak local language
Malus	Email provides time to think and translate	Important, English is increasing
Lilium	Sometimes relevant	Technical issues remain best covered by local language.
Tulipa	Leads to and increase of market transparency, which is negative. Google Translate lacks technical information	English is increasing
Galanthus	Receiving many small sales requests, which is negative. Google Translate lacks technical information	English is increasing
Fagus	Doesn't translate correct context, no technical information	Deeper market penetration = local language more important
Betula	Useful but doesn't translate full context	Local language is important and even expected in some countries

Finally all firms were asked if knowledge of local language remains important nowadays in relation to internationalization, despite the importance of English as lingua franca. As table 8 shows, practically all interviewees state this is important. During various interviews the aspect of context and the use of jargon or technical issues were mentioned as important while internationalizing. Although English is an increasing important business language in the international ornamental business, knowledge of local language remains important due to this factor. Betula repeatedly mentioned; *"Language difference is a handicap that needs to be overcome"* (Co-owner Betula, 2018).

5. Conclusion and recommendation

5.1 Conclusion

The aim of this study was to gain a better understanding in how language difference influences the internationalization process of SMEs. It focused particularly on Dutch SMEs active in the horticultural industry. Insight in language influence was gained through a qualitative explorative approach, focusing on internationalization choices, such as market selection and market entry and operational consequences during this process.

Firstly an analysis was done on what is known in international business literature about language as an element of distance concepts and in relation to internationalization of SMEs. Most scholars have applied their research regarding these topics on MNEs. Studies that focus on internationalization processes and SMEs, mainly focus on entry mode decisions, while language related studies mainly focus on MNEs and particular corporate language and the use of English as language of global business. Literature shows that languages are culturally inherent (Ghemawat, 2001; Welch & Welch, 2008) and play a significant role within distance concepts. According to literature, language difference may lead to external uncertainty and disturbance of information flow due to troubling communications. Various scholars show that cultural, psychic and linguistic distance affect internationalization choices of firms, for example regarding market location choice or trade intensity.

The majority of the SMEs, subject in this research, are family owned. The language knowledge of the owner/CEO seems to play a role in the internationalization decisions. They tend to choose more easily for geographical markets of which they manage to speak the mother language. This complies with findings of Laufs & Schwens (2014).

When summarizing the key drivers for internationalization of SMEs, this research reveals that these are predominantly market seeking as well as the desire to increase sales. This is in line with theory of Johanson & Vahlne (1977). Further drivers are the demand for Dutch products and the specific knowledge of Dutch SMEs. The majority of the SMEs confirm that language difference between home and host country does play a role during the internationalization process nowadays, but to an lesser extent than previous times.

It is striking that some firms clearly indicate that certain geographical markets are not entered (yet) or entered less intensively because of language difference. This especially concerns markets where French is the mother language. Some firms also explicitly mention postponing market entry in France or Russia/Ukraine until they are able to manage the mother languages of these host countries. These findings are in line with arguments about distance concepts from Dow (2000), Whitelock and Jobber (2004) and Dow and Karunaratna (2006) as described in chapter two. Mainly theories about psychic and linguistic distance indicate an existing influence of language difference on internationalization decisions.

Looking further at how SMEs follow internationalization steps, this study shows that eight out of nine firms internationalize incrementally according to the Uppsala model. This complies with general findings about the internationalization process of SMEs (Kontinen & Ojala, 2010; Laufs & Schwens, 2014) and findings from Dominguez and Mayrhofer (2017), indicating that firms from traditional industries prefer incremental internationalization strategies.

The market entry mode applied by all SMEs lies mainly within the non-equity mode, using export or agents. This is in line with findings of Martineau and Pastoriza (2016) and Pinho (2007). Joint ventures are also applied and specifically in Russia/Ukraine. It appears that language difference does not solely influence these entry mode choices. Trust for example plays a role in the decision to choose for a joint venture, due to (financial) equity stakes. Language influence is also mentioned, related to working with agents. Especially the native character of an agent, bridging language difference easily, can facilitate doing business abroad. The native character of an agent also facilitates internationalization due to a better understanding of cultural difference. Kontinen and Ojala (2010) argue that language skills are an important distance bridging factor for SMEs. All cases confirm language and culture being closely related. A recommendation for SMEs, planning to internationalize, would be to recruit local employees or agents. This enables SMEs to bridge linguistic and cultural distance. Further advise would be the use of agents having appropriate business experience. It seems important to be able to understand both context and jargon during the internationalization process. Although the use of new technology such as Google Translate or WeChat facilitates doing business abroad, these programs cannot fully translate business jargon or context.

Despite the increase of English as lingua franca in international business, which is confirmed by all SMEs, and which is in line with findings from Tenzer et al. (2017), knowledge of local language remains important while doing business abroad. Considering the findings of Crick (1999), stating “language can benefit firms while doing business abroad”, SMEs are recommended to invest in language knowledge that corresponds with either the mother language spoken in the host country or the language spoken by the business partner.

Looking more closely at the operational consequences of internationalization, such as costs and power difference, these are experienced differently. Various costs can be identified during the internationalization process due to language difference. All SMEs confirmed to invest in language courses. Costs however are also made due to hiring translators. The use of translators is experienced differently by the SMEs. Some mention the importance of bonding with a translator, providing trust. The information transfer however, can be disturbed while using a translator, especially when the translator is not a native Dutch speaker.

A significant amount of SMEs also mentions the lack of jargon/technical knowledge of translators. SMEs that consider to internationalize are therefore recommended to invest in translators having sufficient business knowledge.

Further, most of the SMEs (have) experience(d) power difference between themselves and their (potential) business partner due to the difference in mother language between home and host country. When local (potential) partners speak in their mother language, this may create a feeling of uncertainty, not knowing what is being discussed ‘on the other side of the table’. Various SMEs have the impression that these kind of situations may influence the business negotiations, which is experienced as uncomfortable. Having more experience with internationalization however leads to a decrease of power difference between (potential) business partners.

SMEs that consider expanding to foreign markets are encouraged to implement language as part of their internationalization strategy. Managing knowledge of relevant local language, positively supports the transfer of knowledge due to reducing linguistic distance. This in turn enables to bridge other forms of distance such as cultural and psychic distance.

Doing this would meet the findings of Melitz and Toubal (2014), who refer to an increase in the need for additional expertise of foreign language for exporting SMEs.

5.2. Limitations and further research

This thesis was written, based on an extensive literature review and data retrieved from nine Dutch horticultural SMEs. Here lies a first limitation. The size of the case sample makes it difficult to generalize these findings. Further research would be required in order to achieve a stronger validation of the conclusions. Also, this study only focused on SMEs located in The Netherlands. Future research could test these findings in other countries.

Another limitation is the focus within this research towards four host markets. Although some cases shared data from other than these four host markets, this leaves out findings regarding other host markets.

Further limitation is that data is retrieved though interviews with owners or CEOs. The researcher was not able to physically attend the process of internationalization decisions made in the past or to observe interaction between (foreign) partners or translators. Researcher was also not able to gather data from business partners. Future research could encompass this, through which richer data could be obtained.

Considering the amount of empirical data and the limitations, I believe this study provides the reader with a better understanding of how SMEs experience language difference during their internationalization process as well as how some operational consequences are experienced.

Since language related studies about the internationalization process of SMEs are very limited, the results from this thesis may inspire further leads to qualitative or quantitative research on this topic. For example, research could be conducted to the extent to which market potential of certain countries or firms remains unused in French speaking markets. Or research could be conducted to the use of translators during internationalization and the influence of trust during this process. These are just a few examples of research directions that may contribute to progress in understanding the impact of language in international business.

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Appendices

Appendix 1: Interview guide

Impact (argument literature)	Questions (starting with Introduction)	
	<u>Introduction</u> -What is your name and occupation ? -Can you briefly describe the company and its history? -How many employees work for the company? -When did the company first internationalize and in what countries is the company active? -What are the drivers for internationalization?	Introducing focus of the interview on 4 selected host markets, United Kingdom, France, Russia/Ukraine and China
<u>Market Selection</u> (Sauter, 2012; Tenzer et al., 2017)	-Who makes the market selection decision within the company? -How does language difference influence the market selection of the company?	Internationalization decisions
<u>Market Entry</u> (Laufs & Schwens, 2014; Nakos & Brouthers, 2002)	-Which international entry modes are used by the company in the four host markets and what was the entry year? -How does language play a role in this entry decision?	Internationalization decisions
<u>Costs</u> (Harzing et al., 2011; Oh et al., 2011, Welch & Welch, 2015)	-What costs can be identified (in)directly during the internationalization process towards the four host markets? -How does perceived language difference cause these costs? What languages does the company manage? Does the company invest in language training? How does the company experience the use of translators?	Operational consequences
<u>Power</u> (Harzing & Pudelko, 2013; Welch et al., 2001) **<u>Further questions</u>**	-Does the firm experience power difference between them and partners in the four host markets -Is this power difference experienced differently due to the increase in internationalization experience -How does language difference influence this power difference? How do you experience the influence of digitalization and programs such as Google Translate during internationalization? How do you experience the importance of using local language during internationalization?	Operational consequences